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SUBJECT: CANADA PLANS STRONGER LAW ON MONEY LAUNDERING AND
TERRORIST FINANCING

¶1. (U) SUMMARY/INTRODUCTION: The GOC plans to introduce legislation this fall designed to tighten its protections against money laundering and terrorist financing. The bill could allow greater information sharing by GOC tax and financial agencies with law enforcement, features which will no doubt be criticized by Canada's privacy advocates. The new law is also likely to provide for closer monitoring of traffic in gems and precious metals (Canada is a leading producer of diamonds and gold).

¶2. (U) U.S.-based financial services firms have complained to Embassy and others about the GOC's plans to introduce "know your customer" rules, which they say could impede the business of "non-face-to-face" credit card issuance. END SUMMARY/INTRODUCTION

¶3. (U) BACKGROUND: Toronto was recently selected to host the secretariat of the Egmont Group, which coordinates international

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anti-money-laundering (AML) and anti-terrorist-financing activities. The GOC will provide C\$5 million to fund the secretariat's initial establishment in Toronto. This month, Frank Swedlove, an Ottawa native and former senior official responsible for financial services sector policy in the GOC's finance ministry, assumed the presidency of the international Financial Action Task Force (FATF). Also, Canada recently became a full member of the Asia/Pacific Group on Money Laundering, where it had held observer status since 2000.

¶4. (U) FINTRAC: The GOC's financial transactions monitoring agency, known as FINTRAC, collects and analyzes reports from financial institutions and intermediaries. FINTRAC identifies suspicious transactions and passes on its intelligence to law enforcement agencies, intelligence agencies and/or FINTRAC's counterparts in other countries. These flows of information are somewhat constrained by Canada's privacy laws and policies.

¶5. (U) NEW LEGISLATION: The GOC's Finance Ministry confirmed on July 7 that it "is planning to introduce legislation at the earliest opportunity that will improve monitoring and enforcement and strengthen FINTRAC's intelligence efforts." While such legislation has been in the works since before the election of the present Conservative Party government in January, the next opportunity to bring a bill forward is when Parliament resumes on September 18.

¶6. (SBU) "KNOW YOUR CUSTOMER": Embassy has heard in recent months from U.S.-based financial services firms whose business includes "non-face-to-face" issuance of credit cards by mail, phone or online. These firms are concerned that the GOC's new legislation will include rules requiring greater verification of customer identity, undermining their business models. Embassy has so far not

raised these concerns with the GOC, since (a) the firms appear to have abundant direct access to the Finance Ministry and Parliamentarians, (b) influential Canadian-based businesses share their complaints, and (c) we are reluctant to interfere with what otherwise appears to be a laudable legislative initiative.

17. (SBU) OTHER MEASURES: Information gleaned from contacts and various reports suggest that the GOC's bill could include measures in the following areas:

-- REPORTING ENTITIES: A wider range of entities (i.e. outside the financial services, insurance and real estate sectors) could be required to report certain transactions to FINTRAC. Contacts say that players in the gem, precious metal and jewelry businesses are likely targets. FINTRAC tells us that it would eventually like to cast the net still more widely (e.g. to dealers in works of art and motor vehicles), but that it is reluctant to see its mandate expand more quickly than its resources.

-- FINTRAC DISCLOSURE RULES: The list of data items that FINTRAC may disclose to law enforcement and international partners could be expanded somewhat. While this list is identical for Canadian law enforcement and for international counterparts, and while it currently covers a wide range of data about each suspicious financial transaction, it does not include certain "personal" information such as the players' telephone numbers. FINTRAC contacts note that, at least where such data can be obtained through open sources anyhow, FINTRAC should be allowed to disclose it.

-- CHARITIES' REVENUE DATA: A GOC consultation paper on this issue also suggests that Canada's income tax law be changed in order to allow Canada Revenue Agency to share data on registered charities with law enforcement officials.

WILKINS